

IMPACT Silver Corp.
Form 51-102F1
Management's Discussion and Analysis
For the Twelve Months Ended December 31, 2022

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is for the year ended December 31, 2022 of IMPACT Silver Corp. ("IMPACT" or the "Company") prepared as at March 22, 2023 and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2022 and the related notes contained therein. All amounts referred to herein are in Canadian dollars unless otherwise specified. Additional information relating to the Company including material change notices, certifications of annual and interim filings and press releases are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

This document contains forward-looking statements. Please refer to "NOTE REGARDING FORWARD-LOOKING STATEMENTS."

CORPORATE OVERVIEW

IMPACT controls the majority of two large mineral districts totalling 211 km² in central Mexico: the Royal Mines of Zacualpan Silver District and the Capire Mineral District adjacent to and southwest of the Zacualpan district. IMPACT has been in continuous production at the Royal Mines of Zacualpan Silver District for over 16 years.

IMPACT has been considered one of the purest silver producers. Currently, IMPACT's primary production metal is silver and with over 90% of its revenues generated by silver it is highly leveraged to the silver price.

Since 2006, the Company has carried out programs of exploration, development and mine production in both districts, bringing ten sites from exploration drilling to development and mining. IMPACT has produced over 12 million ounces of silver since 2006 and generated approximately \$241 million in revenues. As a result, a significant portion of over \$71 million in capital expenditures and exploration on the properties has been funded by operations, and the company still has no long-term debt.

During the last half of 2022, the Company experienced inflationary pressure on supplier prices, an increase in the labour union compensation terms, and a stronger Mexican Peso. In addition, the Company incurred additional consulting costs of \$0.4 million in response to increased compliance requirements and requests by the Mexican tax authorities. The result was to negatively affect cashflow and income. At the same time, the Company continued its focus on exploration and development of the district, spending \$4.9 million on these programs and drilling approximately 22,000 meters ("m") in 2022.

In response to the declining silver price and rising costs, the Company initiated a hiring freeze as well as an initial round of layoffs during the year. The Company has decided to defer a number of non-critical projects and reduce the budget for exploration.

After receiving proceeds from the exercise of warrants and options of \$0.9 million during the year, the Company remains well funded with cash of \$15.3 million at December 31, 2022. Although cash was down from \$21 million at December 31, 2021, \$4.9 million of the decrease is related to the extensive exploration and development program at Zacualpan. Working capital at December 31, 2022 remained strong at \$16.4 million.

Plomosas Mine Agreement

Subsequent to the year end, the Company's strong working capital position provided the opportunity for it to enter into a conditional Share Purchase and Sale Agreement with (the "Sales Agreement") with Consolidated Zinc Limited ("CNL") on February 9, 2023 to purchase all of the outstanding shares of that company's Mexican subsidiary, Minera Latin American Zinc S.A.P. I de CV ("MLAZ") which holds a 100% interest in the Plomosas operating zinc-lead-silver mine in the state of Chihuahua., Northern Mexico.

The acquisition will expand IMPACT's production profile from one to two producing operations: the Plomosas zinc-lead-silver district in northern Mexico, and the Royal Mines of Zacualpan silver-lead-zinc - gold district in central Mexico.

The purchase price of US\$6-million consists of a minimum US\$3-million in cash and the balance in IMPACT shares, plus a 12% net profit interest royalty to CNL. Subject to the release of certain condition precedents, completion of the transaction is anticipated on or before April 7, 2023.

CNL reported that Plomosas had JORC mineral resources of 215,000 tonnes grading 13.5 per cent zinc, 6.3 per cent lead and 34.0 grams per tonne ("g/t") silver indicated, and 772,000 tonnes grading 13.1% zinc, 3.0% lead and 19.0 g/t silver inferred, at a 3% zinc cut-off at December, 2021 (*see Cautionary Statement below**). IMPACT plans a drill program in 2023 to infill and test extensions of the known mineralization.

Plomosas is host to high-grade mineralization. Historical mining is in the global upper quartile for zinc grade with approximately 2.5 million tonnes mined since 1943 grading 15 to 25% zinc, 2 to 7% lead and 40 to 60 g/t silver with low deleterious elements (*see Cautionary Statement below***).

Overall, during 2022

During the year there were 152,862 tonnes milled at the Zacualpan complex, up 5% from 145,458 in 2021, while silver grades in both 2022 and 2021 averaged 159 g/t. In 2022 silver production was 632,862 oz compared to 617,686 oz in 2021, with 157,381 oz produced in Q4 2022 (Q4 2021 - 162,869 oz).

Silver sales for 2022 were 644,843 oz, (2021 - 633,952 oz) and revenue per tonne was \$105.39 compared to \$119.04 in 2021. Revenue per tonne sold in the current Q4 2022 was \$106.94 (Q4 2021 - \$116.67). During the quarter the price of silver was lower than the same period in 2021 by over US\$2.00 per ounce, impacting both revenue and earnings. Direct costs per tonne for the 4th quarter 2022 were \$99.79, up \$2.00 per tonne from the comparable period in 2021. In addition to the inflationary impact on operating expenses, the increase in the cost per tonne was in part a result of the Company's increased exploration and development at the Guadalupe and San Ramon mines which was expensed during the year. These costs are expected to continue in the near future as the mine is engaged in a significant program of exploration and development, but are anticipated to have a positive impact on grade and tonnage later in 2023.

As a result, mine operating loss for 2022 was \$0.2 million down from mine operating income of \$3.4 million in 2021. After non-cash costs including amortization and depreciation, and deferred income taxes, the Company incurred an accounting net loss of \$3.2 million compared to net loss of \$0.5 million in 2021. Comprehensive income for the year was \$1.0 million, compared to a loss of \$1.6 million in 2021.

During Q1 2021, the Company optioned approximately 1,100 hectares of its Zacualpan S.E. concession to Pantera Silver Corp. ("Pantera"). Pantera paid the Company \$50,000 and issued 200,000 shares valued at \$85,000. This agreement is subject to a 1% net smelter return in favour of IMPACT. In Q1 2022, Pantera made a payment of \$100,000 in cash, and issued the Company 1.0 million treasury shares valued at \$240,000. Pantera is required to make option payments totaling \$300,000 in cash, issue the Company 3.5 million in shares and complete a minimum of \$1.4 million in work on the project over the next three years, to acquire 100% of the project. The parties are in discussion to defer certain obligations a further year.

With trading on the various stock exchanges, IMPACT is recognized as a medium cost producer, highly leveraged to the price of silver. To date the Company believes the market has not attributed significant value to its extensive land position and its exploration potential. Starting in 2021, the Company committed to a major exploration program including a considerable drill program focused on the greenfield potential of its large land package. In 2021 the results from four successful drill programs totalling over 17,000 m with its own drills were announced during the year. In 2022 the Company has conducted a drill program that exceeded 22,000 meters, initially focusing on development of brownfield targets and then progressing to greenfield targets in the recent part of the year. In areas where it will not be able to focus over the next two years, the Company will continue to look to potential partnerships to further accelerate discovery.

Recent legislation by the Mexican government has resulted in the reorganization of the activities of the company's Mexican subsidiaries in order to comply with what the Company's advisers understand are the new requirements in both employment and taxation. Like many other companies in Mexico, IMPACT has not determined the full effect of the legislation upon operating costs and net income, but as a result the Company wrote down potential deferred tax recoveries in 2022 as well as 2021.

IMPACT's key initiatives for the year 2023 and beyond:

1. Continue extensive development of the Guadalupe mine, including the newly developed Pachuqueno area while optimizing production with a focus on maximizing cash flows from its other mining operations. This work has been accompanied by upgrading of the underground railroad facility and an extensive underground drilling program that has identified a number of veins in the immediate area. Further development is also occurring at the San Ramon mine, as the new stope San Ramon South is being developed and opening of the historic Alacran gold-silver mine.
2. During 2022, IMPACT conducted an aggressive exploration program, including a diamond drill program that was in excess of 22,000 m. The program was focused on discovery and definition of additional high-grade silver and gold zones for near and longer-term mining. With the current success combined with the operational efficiencies of its own drills, the Company plans a number of additional programs during 2023 which, depending on the price of silver, could approach an additional 10,000 m of drilling across the Company's extensive land package.
3. Subject to the completion of the acquisition of the Plomosas mine, IMPACT plans to further expand production there in a two-phase program, initially by rehabilitating the current facilities and infrastructure. The objective is to initially reach 150 to 200 tpd of production while conducting an exploration and drill program that could anticipate a further increase in production.
4. Subject to market conditions and current technical studies including ore sorting as well as expanding the current pilot plant and infrastructure, IMPACT is looking to potentially restart production at the Capire open pit mine in a suitable metal price environment.
5. Where prudent, the Company will continue to expand its ESG activities focusing on community and environmental issues.
6. IMPACT will continue its staged review of other opportunities for advanced development and mining opportunities in Mexico and elsewhere.

IMPACT is a reporting issuer in British Columbia and Alberta. The Company's shares trade on the TSX Venture Exchange as a Tier 1 Issuer under the symbol IPT and on the Frankfurt Stock Exchange under the symbol IKL.

Financial Overview

During the fourth quarter, the company experienced higher mill throughput with lower silver grades, which resulted in production of 157,381 oz of silver, compared to 162,869 oz silver in Q4-2021. Sales during the same period were 166,590 oz in 2022, compared to Q4-2021 154,224 oz.

- Mine operating income before amortization and depletion¹ for Q4 2022 was \$0.3 million (Q4 2021 \$0.6 million income), and for the year was \$1.2 million.
- Cash used in operations for the quarter was \$0.6 million compared to cash generated from operations of \$0.2 million in Q4 2021.
- After investing \$0.6 million in exploration expenditures and mining assets during the quarter, the cash position remained strong at \$15.3 million with working capital of \$16.4 million.
- Net loss for Q4 2022 was \$1.1 million compared to net loss of \$0.5 million in Q4 2021.

Production and Sales Highlights

Guadalupe Production Complex

The Company is continuing its strategy utilising capacity at its Guadalupe processing plant to focus on lower cost, higher grade production. Consequently, despite the development muck from ongoing work, the Company was able to mine more tonnes in 2022 than the comparative period in 2021 but at the equivalent grade.

In late 2021, the Company started to expand its exploration and development into new areas that appear to provide higher margins. The mining activity is becoming more focused on the Guadalupe mine and other areas accessed from that shaft, with Guadalupe tonnage providing approximately 55% of the mill feed in Q4 2022. A substantial underground development program at Guadalupe is continuing which includes the refurbishment of the mineshaft at the Guadalupe mine, and extending the current shaft to the 235 level that will provide access to a new area the Kena vein. The extensive track system on the 195 level that accesses the Pachuqueno section of the mine is being upgraded. Both projects will provide for considerably higher capacity with lower associated hauling costs. Drilling both from surface and underground is continuing to expand this area on the numerous veins identified to date.

At the San Ramon mine, development continues to access the newly identified south zone. While development continues, San Ramon is providing approximately 12% of the feed to the mill.

Preliminary engineering studies indicate that tailings pond #1 can be increased in size adding at least one to two additional years of tailings. Work continues on a third tailings facility with a provisional life of nine years of operations at the Guadalupe mill complex.

Capire Project

Previous 43-101 studies on the Capire deposit have been evaluated with an inhouse review using the experience of the test mining toward the potential restart of operations. Other studies are being conducted with regard to critical infrastructure to determine optimum plant size for Capire operations. Also, as the result of lab scale studies, a bulk sample of 1,400 kilograms of material selected by the Company's consultant from the Capire open pit was shipped for testing to a Canadian laboratory using state of the art X-Ray transmission ("XRT") pre-concentration processing technology. XRT technology is a process that recognizes and sorts rocks based on the specific atomic density of the material. XRT sorts ore grade material from waste reducing

¹ Mine operating income before amortization and depletion is a non-IFRS measure which the Company believes provides meaningful information about the Company's financial performance. See "Non-IFRS MEASURES".

the amount of material to be processed during the milling process as well as tailings. The bulk sample results have been positive and the Capire zone is being reviewed for optimization in light of potential processing with XRT. The Company is currently evaluating the impact of XRT upon both capital and operating costs, recoveries and the ultimate mineable size of the zone and the current pilot plant.

The objectives of these studies are to improve the possible operating margins through reduced processing costs to minimize sensitivity of operations from metal price fluctuations, and to potentially increase throughput at the current Capire plant.

During the fourth quarter, IMPACT completed the drill programs on two nearby exploration targets at Aurora 2 and Manto Rico. For results from the Aurora 2 drilling (see IMPACT news release dated February 16, 2023).

PRODUCTION AND SALES: GUADALUPE MILL

	For the Three Months Ended December 31			For the Years Ended December 31		
	2022	2021	% Change	2022	2021	% Change
Total tonnes (t) milled	39,720	36,625	+8%	152,862	145,458	+5%
Tonnes produced per day	432	398	+9%	419	399	+5%
Silver production (oz)	157,381	162,869	-3%	632,862	617,686	+2%
Lead production (t)	51	60	-16%	227	250	-9%
Gold production (oz)	82	78	+5%	297	295	+1%
Silver sales (oz)	166,590	154,224	+8%	644,843	633,952	+2%
Lead sales (t)	57	56	+2%	238	236	+1%
Gold sales (oz)	79	71	+11%	281	283	-1%
Average mill head grade –silver g/t	150	172	-13%	159	159	0%
Revenue per tonne sold ²	106.94	116.67	-8%	105.39	119.04	-11%
Direct costs per production tonne ²	99.79	97.79	+2%	97.49	86.44	+13%

MINE PRODUCTION

Royal Mines of Zacualpan District

At the Royal Mines of Zacualpan Silver-Gold District several underground / open pit mines on epithermal silver (-zinc-lead) veins feed the central Guadalupe processing plant rated at 535 tonnes per day. Since acquiring the project, there has been extensive work done to upgrade operations and enhance production. Expanding the tailings capacity is an ongoing process. Work continues on a third tailings dam which will have a provisional life of nine years of operations at the Guadalupe mill complex.

Guadalupe Silver Mine

The Guadalupe Mine is located adjacent to the Guadalupe mill. This underground mine restarted commercial production in September 2018 after a hiatus of five years and is now the largest producing mine on the

² Revenue per tonne sold and direct costs per production tonne are non-IFRS measures which the Company believes provides useful information on revenue and direct costs. See "NON-IFRS MEASURES".

property. Production comes from multiple veins on multiple levels in the largest vein cluster known on the property. During the fourth quarter of 2022, the Guadalupe Mine provided 55% (Q4 2021 – 57%) of feed to the Guadalupe mill. Monthly average mining grades at Guadalupe during the quarter ranged from 156 to 159 g/t silver. Production during Q4 2022 was from the Lipton, Liptonia, San Lorenzo and several Pachuqueno area veins on Levels 0, 40, 110, 140, 175 and 235. With its lower cost structure, the Company has expanded production from Guadalupe, upgraded the shaft and underground railroad infrastructure, and is upgrading other infrastructure in the mine to access additional veins for mining.

San Ramon Silver Mine

The San Ramon Mine is located five kilometres southeast of the Guadalupe mill. San Ramon has been a significant contributor to production since 2008. In September 2021, the Company finished mining the San Ramon Deeps zone and began development and mining of the San Ramon South zone which was discovered in early 2021. During the fourth quarter of 2022, San Ramon South provided 13% (Q4 2021 – 8%) of feed to the Guadalupe mill. Monthly average mining grades at San Ramon during the quarter ranged from 158 to 167 g/t silver. Production during Q4 2022 was from Levels 7 and 8 in the San Ramon South zone.

Veta Negra Silver Mine

The Veta Negra mine is a small open pit operation which commenced production in September 2019. It is located four kilometres northwest of the Guadalupe mill. The mine contributes a silver-rich feed to the Guadalupe mill from a near surface bulk tonnage zone. During the fourth quarter of 2022, the Veta Negra Mine provided 11% (Q4 2021 – 8%) of feed to the Guadalupe mill. Monthly average mining grades at Veta Negra during the quarter ranged from 165 to 175 g/t silver. Exploration is continuing to determine the full potential of the Veta Negra Zone and other nearby zones.

Cuchara Silver Mine

The Cuchara mine is located 2.5 kilometres east of the Guadalupe mill and commenced production in the second quarter of 2013. During the fourth quarter of 2022, the Cuchara Mine provided 19% (Q4 2021 – 27%) of feed to the Guadalupe mill. The mine contributes a silver-lead-zinc feed to the Guadalupe mill. Current production is mainly from the Milmaravillas and Jazmin veins. Monthly average mining grades at Cuchara during the quarter ranged from 132 to 150 g/t silver.

Alacran Gold-Silver Mine

The Alacran Gold-Silver Mine is a new operation on a historic mine located three kilometres south of the Guadalupe mill. IMPACT began redevelopment of the mine during the fourth quarter and trucked minor feed to the Guadalupe mill from development muck in preparation for commercial mining. The mine will contribute a gold-silver feed to the Guadalupe mill. Initial production is from the San Margarito Vein. Average mining grades of development muck at Alacran during the quarter ranged from 2.2 to 2.8 g/t gold and 20 to 31 g/t silver.

Capire Processing Plant and Mine

The Capire Production Centre is located 16 kilometres southwest of the Guadalupe Production Center. It is a volcanogenic (“VMS”) base and precious metal deposit. VMS mineralization in the Capire district is predominantly silver-rich with zinc and lead credits occurring in small massive sulphide lenses enveloped in disseminated mineralization.

In Q2 2013, IMPACT announced the commissioning of the Capire open pit mine and completion of construction of the 200-tpd pilot plant. The purpose of the open pit silver test mining and processing operations at Capire was to determine production costs and optimize mining and processing methods in planning for a potentially larger operation in the future. The work performed increased the Company’s knowledge about the metallurgy of minerals in both districts and has helped define operating costs at Capire. Most of this test work was completed; however, in light of lower silver prices, Mexican mining tax changes,

hauling costs and low overall silver grade being mined at Capire, the Company recognized that the open pit test mining operation was not economical at that time. In February 2014, after processing approximately 33,000 tonnes of material, the open pit operations were suspended.

After the shutdown, the Capire plant was reconfigured as a bulk test processing facility for gold and copper mineralization from the Carlos Pacheco South Zone in the Noche Buena Mine. The results of this test work at Capire and later at the Guadalupe mill, demonstrated good gold recoveries from Carlos Pacheco South mineral when mixed with Zacualpan silver mineral.

The Capire plant is currently on care and maintenance. Company engineers are reviewing Capire for potential restart of operations. The Company is also assessing the potential of an ore sorting system to upgrade the mineral feed at low cost to the Capire mill.

Capire Mineral Resource

On January 18, 2016, IMPACT announced NI43-101 mineral resources for the Capire Zone as follows and then filed a supporting technical report on www.sedar.com on March 3, 2016.

Total Resource at US Dollar per Tonne Cutoffs - Inferred and Unoxidized								
Cutoff	Inferred Mineral Resources							
US\$/t	Tonnes	US\$/t	g Ag/t	%Zn	%Pb	Oz Ag	lbs Zn	lbs Pb
10	4,465,000	36.20	44.21	0.72	0.31	6,346,000	71,183,000	30,212,000
15	3,450,000	43.24	53.03	0.85	0.37	5,881,000	64,914,000	28,072,000
20	2,707,000	50.37	62.22	0.98	0.43	5,414,000	58,444,000	25,755,000
25	2,177,000	57.19	71.06	1.10	0.49	4,974,000	52,766,000	23,522,000
30	1,786,000	63.74	79.49	1.22	0.54	4,563,000	47,975,000	21,423,000
35	1,490,000	69.96	87.65	1.33	0.59	4,199,000	43,692,000	19,504,000
40	1,242,000	76.47	96.20	1.45	0.65	3,842,000	39,596,000	17,666,000
45	1,035,000	83.30	105.37	1.56	0.70	3,507,000	35,693,000	15,905,000
50	859,000	90.69	115.49	1.69	0.75	3,189,000	31,983,000	14,203,000
60	636,000	103.31	133.60	1.88	0.84	2,732,000	26,339,000	11,793,000
70	489,000	114.89	150.72	2.04	0.92	2,370,000	22,034,000	9,909,000
80	381,000	126.33	167.97	2.20	0.99	2,057,000	18,455,000	8,338,000
90	294,000	138.53	187.15	2.34	1.07	1,772,000	15,194,000	6,966,000

The reported resource (“Base Case”) cutoff grade is US\$30/tonne in the table. The mineral resources in this disclosure were estimated by Mine Development Associates (“MDA”) of Reno, Nevada. The resources were estimated using Canadian Institute of Mining, Metallurgy and Petroleum (“CIM”) standards, definitions and guidelines. The resources were estimated by inverse distance cubed (“ID³”) and checked the estimate with inverse distance to the 4th power, kriging, and nearest neighbour.

The table presents the inferred diluted resources at Capire using total-metal (silver, zinc and lead) dollar-value cutoffs. The model block size is 3 metres by 3 metres by 3 metres. The diluted resources are displayed at multiple cutoffs, but the resource is reported at a cutoff of US\$30/t lying within a pit optimized using \$31/oz silver, \$1.51/lb zinc, and \$1.69/lb lead. MDA considered a US\$30/t cutoff to be appropriate at the time for production using IMPACT’s 200 t/d mill and recoveries around 80%, 50%, and 65% for silver, zinc and lead, respectively. The resources were generated within an optimized pit shell on the Capire zone that best conveyed “reasonable prospects for eventual economic extraction” at the time which is a requirement of the 2014 CIM Definition Standards, incorporated into Canadian National Instrument 43-101. There is additional mineralization too deep to fulfill the criteria of “reasonable prospects for eventual economic extraction” within an open pit, but

that may be available for potential underground development. For further details on the Capire mineral resource see IMPACT's news release dated January 18, 2016.

EXPLORATION

Mines on epithermal veins that were drilled and built by the IMPACT team on the property include the Cuchara Silver Mine (currently in operation), San Ramon Mine (currently in operation), the Veta Negra open pit mine (currently in operation), Alacran Gold-Silver Mine (currently starting up production), San Patricio (Chivo) Silver Mine (operated 2017-2018), Carlos Pacheco Gold-Copper Mine (on care and maintenance), Chivo Silver Mine (operated 2007-2012), the Noche Buena Silver Mine (operated 2010-2014) and the Mirasol Silver Mine (operated 2014-2017), as well as the Capire VMS open pit silver mine (being assessed for restart of operations). Exploration is continuing with the goal of finding and developing new mines for the Company. Recent exploration highlights were as follows:

Drilling

During the first quarter, IMPACT announced drill results from the Veta Negra Mine area and extensions including 257 g/t silver over 19.8 metres and 487 g/t silver over 12.97 metres (see IMPACT news release dated February 7, 2022 for details). Subsequent to year end 2022, IMPACT announced 2022 drill results from other areas. At La Luz, on the northwest extension of the Guadalupe Mine, drill results included 239 g/t silver over 1.7 metres and at the San Antonio zinc prospect, drill results included 2.3% zinc over 3.85 metres (see IMPACT news release dated January 4, 2023 for details). At Aurora 2, north of the Capire open pit, drill results included 128 g/t silver, 0.42 g/t gold, 0.76% lead and 1.84% zinc over 7.5 metres (see IMPACT news release dated February 16, 2023 for details).

Exploration Field Work

IMPACT crews are continuing to explore some of the 5,000+ old mine workings and prospects in the districts as well as exploring new areas to define drill targets. Exploration targets are defined and prioritized using a very large computer database compiled over many years from historical maps and other technical data on the project. During the quarter, fieldwork was highlighted by continued exploration on Veta Negra Mine area targets, the Noche Norte area southwest of Veta Negra, Muneca Vein on the southeast extension of the Guadalupe mine, and a new vein discovery east of the Cuchara Mine.

FUTURE PLANS

Mining Plans

At Zacualpan in the near term, the Company is optimizing silver production, ramping up gold production from the Alacran Mine, and continues evaluation of the potential restart of the Capire open pit silver mine. At the Plomosas mine in northern Mexico, the Company is planning toward its assumption of the operations on or before April 7, 2023 (see IMPACT news release dated February 9, 2023 for details).

Exploration Plans

The Company is continuing exploration with the goal of putting some of the 5,000+ compiled old mine workings in the Zacualpan and Capire districts on track to drilling and potential production. The Company is continuing surface and underground drilling programs utilizing Company owned drills to build tonnes for mining. Upcoming drilling and exploration work is planned for the Renovacion Vein east of the Alacran Mine, targets north of the Veta Negra Mine, San Ramon South extensions and a new vein discovery east of the Cuchara Mine.

IMPACT has a track record of successful exploration and rapid mine development. The Company's long-term vision sees potential for establishing multiple mills throughout the two districts, each fed by multiple mines producing silver-lead-zinc as well as gold.

George Gorzynski, P. Eng., Vice President and Director of IMPACT Silver Corp., and a Qualified Person as defined under Canadian National Instrument 43-101, approved the technical information in this MD&A for the Royal Mines of Zacualpan Silver Project and the Capire Mineral District (except information related to the Capire mineral resources) and the Plomosas project. Steven Ristorcelli, C.P.G. (U.S.A.), Principal Geologist for Mine Development Associates and a Qualified Person under the meaning of Canadian National Instrument 43-101, approved the Capire mineral resource estimate and directly related information in this MD&A. Details of the technical information in this MD&A are available in Company news releases posted on the Company website at www.IMPACTSilver.com and on www.sedar.com.

Cautionary Statement: The Company's decision to place a mine into production, expand a mine, make other production related decisions or otherwise carry out mining and processing operations, is largely based on internal non-public Company data and reports based on exploration, development and mining work by the Company's geologists and engineers. The results of this work are evident in the discovery and building of multiple mines for the Company, and in the track record of mineral production and financial returns of the Company since 2006. Under NI43-101 the Company is required to disclose that it has not based its production decisions on NI43-101-compliant mineral resource or reserve estimates, preliminary economic assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.

** Plomosas mineral resources are reported by Consolidated Zinc Ltd. (CZL:ASX) on their website (<https://www.consolidatedzinc.com.au>) under the Australian JORC (2012) Code as mineral resources "depleted as at December 2021" based on an independent report in compliance with JORC (2012) by Shaun Searle of Ashmore Advisory Pty Ltd. IMPACT's Qualified Person has reviewed but not verified in detail these current reported mineral resources and is only reporting them as material recent mineral resources reported by CZL and available in the public record. IMPACT believes the estimates are relevant and reliable, given they are reported to Australian JORC standards; however, IMPACT's Qualified Person has not done sufficient work to classify them as current Canadian NI 43-101 mineral resources.*

*** Reference: Alexandri, A. Gonzalez, H., & Salas, H. (2022). Plomosas Project (CZL), Field Visit Report. IMPACT Silver Corp. private report on field visits and compilation of historic and recent data, 56 pages.*

SAFETY, SOCIAL AND ENVIRONMENTAL POLICY

IMPACT recognizes that exploration and mining create a physical change within the area of work. The Company believes in its responsibility to ensure that it minimizes the environmental impact of its efforts and carries out reclamation on sites disturbed by its activities. As primarily an underground mining situation, surface disturbance from mining has been minimal in the past.

While IMPACT has always considered its responsibility to the community and the environment, in 2023 it initiated its first annual report on those activities which is now available on the Company's website. www.impactsilver.com

Operations:

The exploration drills used and owned by IMPACT are modular diamond drill rigs which minimize the area of disturbance due to their small size and mobility. These drills rigs require little in the way of drill pads or access trails and the Company engages the local community for logistical support and assistance as part of the drill crew. All drill sites are reclaimed. Besides increasing our flexibility, the drill programs and keeping environmental disturbance to a minimum, they have proved extremely cost effective.

Tailings dams are engineered to stringent standards. The tailings themselves are benign and 100% of mine water is either recycled or lost to evaporation. In 2021, the Company, as part of a periodic review, engaged

independent engineers to conduct a study on the status of the current Guadalupe tailings impoundment and are following the recommendations.

Construction of tailings pond number 3 is continuing which will accommodate approximately 9 years of production from the Guadalupe mill complex. The site has now been fully permitted and cleared.

Environmental

In 2022, the trees planted as part of preparation for the new tailings facility number 3, were part of a larger program to improve areas of past historical district wide physical disturbance. For each tree removed, the Company planted a further 7 trees. In conjunction with the municipality and the Technological Baccalaureate Center, the Company planted approximately 6,000 trees of various indigenous species in 2021. A further 10,000 trees are to be planted during 2022/2023.

On the mine's property surrounding the current tailings facilities and the complex's support facilities, the Company, working with local farmers, planted 833 agave plants. The Company maintains a greenhouse for nurturing the initial plants before being transferred to the field. Plans for the next 12 months are for a further 3,000 agaves to be planted. According to the Company's consultants, agave plants have the ability to reduce and isolate large quantities of atmospheric CO₂. They produce more biomass above and below ground than most other plant species. Estimates are they can absorb and store the dry weight equivalent of 30 to 60 tons of CO₂ per hectare per year. Once established they do not require irrigation and are not sensitive to rising global temperatures and drought. Agave also provides a cash crop for the local farmers as well as livestock feed.

The Company is currently reviewing its' power usage, which is sourced primarily from the national Mexican power grid. The studies include sustainable alternatives incorporating LED lighting and solar panels, for at least part of the power demand. In 2021 a test site was established to provide electricity to the mine administrative building with solar panels. This program is anticipated to expand after the rainy season, and will supply other service buildings once suitable locations have been found for the panels. While reducing the mine's carbon footprint, it is anticipated the solar power produced will also generate economic savings.

Social Responsibility

The Company keeps community members informed of its activities and works with the communities to address local concerns. The employment of most workers from the local communities fosters understanding, and direct involvement in the Company's operations. Over the last several years the mine has focused on two strategies to assist the local communities. The first is to up-grade infrastructure which may have been neglected by senior government levels in the past. The Company continues to provide tools, materials and supplies while the communities provide labour. During the year it has upgraded roads, and built a new school, as well as a badly needed health clinic. The Company has also built soccer fields, basketball courts and other facilities for local communities.

The second strategic need is to help ensure water both potable and for irrigation to a number of individual farmers and communities. This includes building water tanks and providing plastic pipes for water storage and distribution.

In the late summer of 2022, earthquake drills were practiced across Mexico and the mine received recognition for its use of the mine rescue team and ambulance in the district as the primary resource in the event of a natural disaster. These safety, social and environmental programs continued through the remainder of the year.

During the current year the Company has taken on geology and engineering students for coop semesters to provide them, under supervision, with the essential experience that is so important in their studies.

COVID-19

Like much of Mexico, the local communities in the district have experienced COVID -19. Early in 2021, the mine established strict protocols with regards to its employees, and provided essential information to them and their families. All employees are monitored when they come to the plant site and mine sites, and those suspected of having been exposed to a COVID-19 related event are sent to the local hospital for testing and required to isolate at home. To date this has kept the impact of COVID-19 upon staff and operations to a minimum.

Operational Impact

The Company has educated its employees and contract personnel to maintain high standards related to environmental and safety issues and they are continually reminded to uphold these standards.

The Company has social, environmental, and other policies related to its operations and promotes a culture for working safely. It has long term and effective relations with its Union, as well as local contractors and personnel that it works with. Work conducted by or on behalf of the Company is planned with a focus on safety and concern for the environment and the local communities. The mining operation has a safety committee, and employs a safety officer to implement and supervise the safety program. In the event of an emergency, the Company maintains a trained mine rescue team, and keeps a paramedic and onsite ambulance on standby.

INVESTOR RELATIONS

The Company builds investor awareness and shareholder value by conducting institutional presentations, and attends investment and mining related conferences that have been online during the pandemic. With the changes occurring in the marketplace and the economy, the Company continues to strengthen its presence via social media and other online marketing, and in the last few months of 2022 began to attend some in-person conferences again.

The Company has also revised its website to assist stakeholders in understanding its activities and the potential of the entire Royal Mines of Zacualpan district. To ensure full disclosure, prior to COVID-19 closures, the Company regularly brought investment advisers and sophisticated investors to its mine site for industrial tours. When suitable it will once again do so. In the interim, it has prepared video presentations of some of its operations and exploration activities available under “Media” on the Company’s website (www.IMPACTSilver.com).

FINANCIAL DISCUSSION

Summary of Quarterly Results

In thousands except for earnings per share	Three months ended December 31	
	2022	2021
Revenue	\$ 4,412	\$ 4,027
Net loss	\$ (1,065)	\$ (541)
Loss income – basic and diluted	\$ (0.01)	\$ (0.00)

Net loss for the fourth quarter of 2022 was impacted by the following factors:

- Revenue for Q4 2022 was \$4.4 million compared to \$4.0 million in 2021, on 166,590 oz of silver sold, up 8% from 154,224 sold in Q4 2021. Although tonnes milled were higher by 3,095 in Q4 2022 over the comparable period in 2021, the silver grade was lower at 150 g/t compared to 172 g/t in Q4 2021, resulting in revenue per tonne sold decreasing to \$106.94 compared to \$116.67 in Q4 2021. In

addition to lower grades during the quarter, the price of silver was down over 9% compared to Q4 2021.

- Mining operating loss was \$0.1 million in Q4 2022 compared to income of \$0.5 million in Q4 2021 with revenue per tonne lower on reduced silver prices and grade, and cost per production tonne increasing to \$99.79 from \$97.79 in Q4 2021. The increase in costs was the result of inflationary pressures on supplier prices, wages and a stronger Mexican peso, plus ongoing development and drilling expenditures in active mines which were expensed during the period.
- General and administrative costs were \$0.5 million compared to \$1.0 million in Q4 2021. In Q4 2021 there was share-based expense of \$0.5 million with no comparable expense in 2022.
- The Company recorded income and deferred tax expense of \$0.4 million in Q4 2022 compared to a recovery of \$0.2 million in Q4 2021, due to the expiry and changes in estimates of tax losses in Mexico.
- There was a foreign exchange loss of \$0.1 million in Q4 2022 compared to a foreign exchange gain of \$0.1 million in 2021.

Summary of Year to Date Results

All figures are in thousands of Canadian dollars except earnings per share.

In thousands except for earnings per share	Twelve months ended December 31		
	2022	2021	2020
Revenue	\$ 16,336	\$ 17,699	\$ 15,578
Net income (loss)	\$ (3,163)	\$ (545)	\$ 2,301
Earnings (loss) per share – basic and diluted	\$ (0.02)	\$ (0.00)	\$ 0.02
Total assets	\$ 68,796	\$ 66,544	\$ 64,832

Net loss for the twelve months ended December 31, 2022 was impacted by the following factors:

- The Company earned revenue of \$16.3 million during year ended December 31, 2022 compared to \$17.7 million in 2021. Although the grade was the same as in 2021, revenue per tonne sold decreased to \$105.39 in 2022 compared to \$119.04 in the same period in 2021 due to a 13.6% decline in silver prices.
- Mine operating loss was \$0.2 million in 2022 compared to mine operating income of \$3.4 million in the same period of 2021. The decrease in operating income was due to lower revenue in 2022 based on declining silver prices. Direct costs per tonne increased to \$97.49 from \$86.44 in 2021, due to increased inflationary pressures on supplier costs, wages and a stronger Mexican peso, as well as additional costs related to development and drilling in active mines in 2022.
- General and administrative costs were \$2.4 million in 2022 compared to \$3.2 million in 2021. In 2021 there was share-based payments expense of \$1.5 million with no comparable expense in 2022. Consulting fees and salaries rose in 2022 by \$0.6 million in 2022 over 2021 due to increased Mexican government compliance requirements and requests.
- The Company had deferred and current income tax expense in 2022 of \$0.6 million compared to a \$0.8 million in the comparable period of 2021, due to the expiry and changes of estimates of tax losses in Mexico.

OTHER FINANCIAL INFORMATION

Summary of Quarterly Results

The following table presents our unaudited quarterly results of operations for each of the last eight quarters.

For the Three Months Ended
(\$ in thousands except for earnings per share)

	Dec 31 2022	Sept 30 2022	June 30 2022	Mar 31 2022	Dec 31 2021	Sept 30 2021	June 30 2021	Mar 31 2020
Revenue	4,412	3,794	3,501	4,629	4,026	4,081	4,216	5,376
Net (loss) income	(1,065)	(1,243)	(795)	(60)	(541)	35	218	(257)
Earnings (loss) per share – Basic and Diluted*	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	0.00	0.00	(0.00)
Total assets	68,796	69,257	66,781	66,781	66,544	66,306	66,546	65,070
Total liabilities	6,963	7,181	6,306	6,384	6,578	6,323	6,505	6,219

Liquidity, Financial Position and Capital Resources

Working Capital and Cash Flow

During the year ended December 31, 2022:

- At December 31, 2022 the Company had cash of \$15.3 million, down \$5.8 million from December 31, 2021.
- Working capital at December 31, 2022 was \$16.4 million compared to \$21.5 million at December 31, 2021.
- In 2022, the Company invested \$4.9 million (2021 - \$3.6 million) in long-lived assets, of which \$2.7 million was allocated to exploration expenditures and \$2.2 million to property, plant and equipment including mining assets.
- The Company used cash flows from operating activities of \$1.8 million compared to generating cash flows of \$3.0 million in 2021.
- In 2022 the Company received proceeds of \$0.9 million from the exercise of warrants and stock options. In the comparative period in 2021, the Company received \$1.4 million on the exercise of warrants and stock options.
- In 2022, 10,976,954 warrants expired.
- In 2022, the Company received a cash payment of \$100,000 and 1.0 million treasury shares from Pantera valued at \$240,000 pursuant to the option agreement on part of its Zacualpan SE concession signed in Q4 2020. In 2021, the Company received \$50,000 in cash and 200,000 shares valued at \$85,000 from Pantera.

During the three months ended December 31, 2022:

- For the three months ended December 31, 2022, the Company used cash flows from operating activities of \$0.6 million compared to generating cash flows of \$0.2 million in 2021.
- In Q4 2022, the Company invested \$0.6 million (2021 - \$0.7 million) in exploration expenditures and property, plant and equipment including mining assets.

Outstanding Share Data

The following common shares and convertible securities were outstanding at August 25, 2022:

	# of Shares	Exercise Price	Expiry Date
Issued and outstanding common shares	148,187,710		
Stock options	1,750,000	\$0.36	October 24, 2024
Stock options	2,010,000	\$0.90	January 18, 2026
Stock options	2,250,000	\$0.48	October 8, 2026
Warrants	4,878,334	\$0.385	April 16, 2023
Fully diluted	<u>159,076,044</u>		

All of the 6,010,000 stock options outstanding have vested.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISK

Financial assets and liabilities

The Company's financial instruments consist of cash, concentrate, trade receivables, other receivables, investments, trade payables, and lease obligations. Cash and other receivables are measured at amortized cost. Concentrate trade receivables are measured at fair value through profit or loss. Investments are designated as fair value through other comprehensive income and measured at fair value as determined by reference to quoted market prices. Trade payables and lease obligations are measured at amortized cost.

Financial instrument risk exposure

The Company's financial instruments are exposed to a number of financial and market risks including credit, liquidity, currency, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks, since the Company's management does not believe that the current size, scale and pattern of cash flow of its operations would warrant such hedging activities.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk include cash, trade and other receivables and investments. The Company deposits its cash with high credit quality financial institutions as determined by ratings agencies, with the majority deposited with a Canadian Tier 1 bank. As is customary in the mining industry, the Company has entered into contracts with refining and smelting companies for the refining and sale of its silver, lead, zinc, and gold contained in its lead and zinc concentrates. All contracts are with currently with Trafigura Mexico S.A de C.V. and previously with Samsung C&T Corp. As a result, the Company has a significant concentration of credit risk exposure to these companies at any one time but is satisfied that these companies have adequate credit ratings as determined

by Standard and Poor's. The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash (\$15.3 million) and trade and other receivables (\$1.7 million).

Interest rate risk

The Company is exposed to interest rate risk on its cash. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and any short-term investments mature and the proceeds are invested at lower interest rates.

Currency risk

Foreign exchange rate fluctuations may affect the costs that the Company incurs in its operations. Silver, lead, zinc, and gold are sold in US dollars and the Company's costs are principally in Mexican pesos and Canadian dollars. At December 31, 2022, the Company is exposed to currency risk through the cash, trade and other receivables, and trade payables held in US dollars and Mexican pesos. Based on these foreign currency exposures at December 31, 2022, a 10% depreciation or appreciation of all the above currencies against the Canadian dollar would result in an approximate \$0.2 million decrease or increase in the Company's net income for the year ended December 31, 2022.

Commodity price risk

Due to the recent volatility in silver prices, the Company is assessing the impact and direction in silver prices over the short and long term. Should the prices decline, the Company's operating results could be adversely impacted, and potentially the Company may have to recognize an impairment on the carrying value of its non-financial assets. The Company is addressing these issues with the objective of lowering production costs and mining higher-grade mineralization.

The only financial instrument affected by commodity price risk for the Company is trade accounts receivable. Assuming the same rate of production, a 10% change in commodity prices from actual realized prices would have increased or decreased the Company's trade accounts receivable balance at December 31, 2022 by \$0.1 million (2021 - \$0.1 million).

The profitability and operating cash flow of the Company are affected by numerous factors, including but not limited to, the tonnes and grade of material mined and milled, the amount of metal concentrates produced, the level of operating costs, and general and administrative charges. Operating results are also influenced by factors over which the Company has less direct control, such as refining and smelting charges and other factors such as commodity prices and foreign exchange rates, which are largely outside the Company's control. The nature of the Company's business is demanding of capital for property acquisition costs, exploration commitments and holding costs. The Company's liquidity is affected by the results of its own acquisition, exploration and development activities. The acquisition or discovery of an economic mineral deposit on one of its mineral properties may have a favourable effect on the Company's liquidity. Conversely, the failure to acquire or find one may have a negative effect. Historically, the major sources of liquidity have been mine revenues, the capital markets and project financing. The Company has been and will continue to be dependent upon adequate financing and investor support to meet its long-term growth objectives.

POLITICAL, REGULATORY AND SECURITY ISSUES

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining legislation and regulations. Permission must also be secured from local peoples for exploration and drilling permits, water and land surface use rights. Consequently, in carrying out its mining and exploration activities, the Company may be exposed to a large array of conditions to satisfy on a daily basis in its activities. Risk exists that the Company might fail to be fully compliant in all respects in this political and regulatory environment, or that permits might not be issued on a timely basis to facilitate the Company's planned development activities. Furthermore, social, criminal, and political unrest may exist within a region covered by the Company's operations and such events may affect the feeling of safety and security of the local peoples and may affect the

operating activities of the Company. From time-to-time, government regulatory agencies may review the books and records of the Company, which may result in changes in the Company's operating results.

COVID-19

On March 2020, the World Health Organization declared COVID-19 as a global pandemic. This contagious disease outbreak, which has continued to spread, and the related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. To date there have been no material adverse effects on the Company's business, but the ultimate effect on the Company's cash flows and operations is uncertain and difficult to predict at this time.

APPROVAL

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements before the financial statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of IMPACT have approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

SUPPLEMENTARY INFORMATION

Revenue per tonne sold and direct costs per tonne produced are measures that the Company believes are key indicators of performance and allow for more direct comparison of revenues and costs than comparing gross amounts. These measures are calculated as follows:

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2022	2021	2022	2021
Operating expenses	\$ 4,143,229	\$ 3,397,534	\$ 15,114,777	\$ 12,971,946
Add (deduct): operating expenses for Capire	(5,696)	(41,527)	(8,487)	(129,715)
Add (deduct): inventory	(173,694)	225,392	(203,523)	(269,280)
Direct costs	\$ 3,963,839	\$ 3,581,399	\$ 14,902,767	\$ 12,572,951
Tonnes milled	39,720	36,625	152,862	145,458
Direct costs per tonne	\$ 99.79	\$ 97.79	\$ 97.49	\$ 86.44
Revenue	\$ 4,411,865	\$ 4,026,523	\$ 16,335,788	\$ 17,699,122
Tonnes sold	41,254	34,511	155,003	148,683
Revenue per tonne sold	\$ 106.94	\$ 116.67	\$ 105.39	\$ 119.04

NON-IFRS MEASURES

The non-IFRS measures presented do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be directly comparable to similar measures presented by other issuers. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. The Company uses both IFRS and non-IFRS measures to assess performance and believes the non-IFRS measures provide useful information to investors to help in evaluating the Company's performance. Following are the non-IFRS measures the Company uses in assessing performance:

Mine operating earnings before amortization and depletion is a measure that the Company believes provides additional information regarding how the Company's operations are performing. This measure is calculated as revenues less operating expenses, excluding amortization and depletion.

	For the Three Months Ended December 31		For the Twelve Months Ended December 31	
	2022	2021	2022	2021
Revenue	\$ 4,411,865	\$ 4,026,523	\$ 16,335,788	\$ 17,699,122
Operating expenses	4,143,229	3,397,534	15,114,777	12,971,946
Mine operating (loss) earnings before amortization and depletion	\$ 268,636	\$ 628,989	\$ 1,221,011	\$ 4,727,176

The Company's method of calculating these non-IFRS measures may differ from other entities, and accordingly, may not be comparable to measures used by other entities. Investors are cautioned, however, that these measures should not be construed as an alternative to measures determined in accordance with IFRS as an indicator of the Company's performance.

NOTE REGARDING FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company mines or hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; pandemics; the ability to properly and efficiently staff the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties. This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The Company does not undertake to update forward-looking statements or forward-looking information, except as required by law. Additional information relating to IMPACT is on the Company website at www.IMPACTSilver.com and on SEDAR at www.sedar.com.

The Company's decision to place a mine into production, expand a mine, make other production related decisions or otherwise carry out mining and processing operations, is largely based on internal non-public Company data and reports based on exploration, development and mining work by the Company's geologists and engineers. The results of this work are evident in the discovery and building of multiple mines for the Company and in the track record of mineral production and financial returns of the Company since 2006. Under NI 43-101 the Company is required to disclose that it has not based its production decisions on NI 43-101 compliant mineral resource or reserve estimates, preliminary economic assessments or feasibility studies, and historically such projects have increased uncertainty and risk of failure.

On behalf of the Board of Directors,

“Frederick W. Davidson”

President and Chief Executive Officer

March 22, 2023